Year of Report
December 31, 19 90

UTILITY NAME: South Central Bell Telephone Company

BUSINESS TRANSACTIONS WITH RELATED PARTIES

List each contract, agreement, or business transaction exceeding a cumulative amount of 2,500 in any one year, entered into between the Respondent and a business or financial organization, firm, or partnership named on page 41 identifying the particular amounts, dates and product, asset, or service involved.

Part I. Specific Instructions: Services and Products Received or Provided.

1. Enter in this part all transactions involving services and products received or provided.
2. Below are some types of transactions to include:
   - management, legal and accounting services
   - computer services
   - engineering and construction services
   - repair and servicing of equipment
   - material and supplies furnished
   - leasing of structures, land, and equipment
   - all rental transactions
   - sale, purchase or transfer of various products

Name of Company or Related Party	Description Service and/or Name of Product	Contract or Agreement Effective Dates	Annual Charges (P)urchased or (S)old	Annual Charges Amount
BellSouth Advertising & Publishing Co. (BAPCO)	Directory publishing		P	238
BellSouth Communications, Inc.			P	180
BellSouth Financial Services	Financing Services		P	138
BellSouth Information Systems	Data Processing Services		P	73
DataServ	Data Processing Equipment lease and repair		P	69
BellSouth Educational Services	Training		P	21
Stevens Graphics	Printing		P	14
MCCA	Mobile Communication Services		P	7
BellSouth Corporation (DC)	External Affairs		P	5

Deadline to file / FI Release 7-18

BEFORE THE PUBLIC SERVICE COMMISSION
OF
THE STATE OF MISSISSIPPI

89-UN-5453
NF89-149

SOUTH CENTRAL BELL TELEPHONE COMPANY

IN RE: NOTICE AND APPLICATION OF SOUTH CENTRAL BELL TELEPHONE COMPANY FOR ADOPTION AND IMPLEMENTATION OF A RATE STABILIZATION PLAN FOR ITS MISSISSIPPI OPERATIONS.

ORDER

This cause is before the Mississippi Public Service Commission ("Commission") for final determination of all issues presented in this case, and the Commission, having determined that it has full jurisdiction of the parties and of the subject matter of this proceeding, and having considered the oral and documentary testimony and other evidence presented, now makes the following findings and order herein:

I. PROCEDURAL BACKGROUND

On November 15, 1989, South Central Bell Telephone Company ("SCB" or "Company") filed with this Commission its Notice and Application For Adoption And Implementation Of A Rate Stabilization Plan ("Mississippi Rate Stabilization Plan") or ("Plan") for its Mississippi operations. Thereafter, notice was given as required by law to all potentially interested parties and to the public. The Attorney General of the State of Mississippi ("Attorney General"), the United States Department of Defense ("DOD"), various independent telephone companies ("Independents"), the Mississippi Association of Resellers ("Resellers"), AT&T Communications of the South Central States, Inc. ("AT&T"), MCI Telecommunications Corporation ("MCI") and Mississippi Legal

Services Coalition and Southeast Mississippi Legal Services (collectively "Legal Services") all intervened in this proceeding.

On December 11, 1989, the Commission suspended the Company's proposed rates, charges and Plan for a period not to exceed 120 days and directed the Public Utilities Staff ("Staff") to make a full investigation to determine the reasonableness and lawfulness of the proposed rates, charges, and Plan.

Subsequently, on January 31, 1990, the Commission entered its Second Amended Scheduling Order in which, among other things, the Commission established a schedule for the filing of testimony and exhibits by all parties and intervenors; for the filing of data requests and responses thereto by certain specified dates; for a prehearing conference to be conducted on April 24, 1990: for the filing of final testimony and exhibits subsequent to the prehearing conference; and for the public hearings to commence May 14, 1990.

The prehearing conference was conducted as scheduled, with extensive discussions and negotiations among the Staff, the parties, and the Intervenors. On April 26, 1990, as a consequence of the prehearing conference, the Staff, the Attorney General, Legal Services, and the Company entered into certain Stipulations which were thereafter accepted and adopted by the Commission by its Order of May 7, 1990.

On April 27, 1990, AT&T and the Company entered into certain Stipulations. On May 14, 1990, the Attorney General, the Company and Legal Services entered into certain additional Stipulations. Both of these Stipulations were filed with the Commission and made part of the record.

Prior to the commencement of public hearings in this cause, the Independents who had intervened withdrew their interventions and all testimony and pleadings associated therewith and were dismissed from this case.

Upon the commencement of public hearings in this cause, the Resellers' Motion in Limine to strike AT&T's testimony regarding restructuring of the intraLATA market was heard. The Commission granted said motion and stated that the subject of intraLATA competition should not be addressed in this docket but should be addressed in another docket in the future.

Public hearings in this matter were commenced on May 14, 1990, and concluded on May 15, 1990. All interested persons and parties were afforded a full opportunity to present statements and evidence. Extensive evidence was introduced, and all parties were afforded a reasonable opportunity to cross-examine witnesses of all other parties.

II. FINDINGS

Subsequent to the conclusion of the public hearings, the Commission has duly considered all of the prefiled direct, supplemental and rebuttal testimony and other evidence, and does now make and enter the following findings:

A.

Recognizing the vast changes that had occurred and were occurring in the telecommunications industry, in our Order of August 10, 1988, we established Docket U-5214 to address the implication of these changes on the provision of telecommunication services in Mississippi. Among other things, we directed the Company to file with us an overall plan for the development of new technologies in this State, and to file a proposed state-wide plan and tariffs to offer on an optional basis a method of service that would (1) permit ratepayers to have some control over their local charges; (2) help low income persons to have access to the Company's network; and (3) address extended area calling concerns. In response to the Commission's Order of August 10, 1988, the Company developed and provided to the Commission detailed information on the Company's plans for the deployment of technology, especially in the rural areas of this State. In addition, the Company developed a state-wide plan to provide Mississippi ratepayers a local service option that would allow them to control their local telephone charges and that would address extended area calling concerns. This plan, called the Area Calling Plan ("ACP"), is available in much of the State and will be available to all South Central Bell Mississippi customers by the end of 1990. Because some customers may want to keep their service exactly the way it is, this new usage based local service offering is provided as an optional plan. Moreover, in Docket U-5214, we directed the formation of a Task force to study and make recommendations to us concerning regulatory approaches capable of responding to the changes and complexities in the current telecommunications environment. The Task Force appointed by the Commission studied and considered the matters assigned to it, and on October 29, 1988, submitted a detailed report to the Commission recommending the establishment and implementation of a Rate Stabilization Plan. After reviewing the report and filings of the Task Force, the Commission decided to defer the matter of new regulatory approaches for future consideration.

B.

In addition, the Mississippi Legislature enacted Section 77-3-2(h), Mississippi Code of 1972, which became effective February 24, 1989, authorizing this Commission to consider and adopt formula rate-making plans, In granting that authority to us, the Legislature declared the public policy of this State to be "to encourage the continued study and research for new and innovative rate-making procedures which will protect the State, the public, the ratepayers, and the utilities, and where possible, reduce the costs of the ratemaking process."

On November 15, 1989, the Company initiated this proceeding, seeking approval of its proposed Mississippi Rate Stabilization Plan. Our review of that Plan clearly shows that the Plan meets all of the requirements of the aforesaid Section 77-3-2(h) including those requirements concerning periodic revenue adjustments and hearings related thereto. The Commission takes this opportunity to expressly confirm that the plan does not propose, nor will it be allowed, to abrogate the statutory requirements for hearings.

C.

In the context of the developments described above, and in light of the extensive evidence presented in the course of this proceeding, we are convinced that the adoption of a Rate Stabilization Plan is in the best interests of the Company's ratepayers, of the general public, and of the Company itself. Accordingly, we order the implementation of a Rate Stabilization Plan for the Company's operations in Mississippi, as set forth herein; however, as set forth below, in doing so we reject certain aspects of the Company's proposed Plan, make changes to certain other aspects of the Company's proposed Plan, and order instead the adoption and implementation of the Plan as modified herein.

D.

As noted above, during the course of these proceedings, the Company and certain parties and intervenors entered into certain Stipulations. Not all parties or intervenors entered into all of the Stipulations, however; and the Commission formally accepted and adopted as its own only those Stipulations entered into on April 26, 1990, between the Company, the Staff, the Attorney General, and Legal Services. In any event, all parties and intervenors were afforded a full opportunity to object to said Stipulations and to present testimony and other evidence respecting those Stipulations. Notwithstanding this opportunity, no party or intervenor objected to the Stipulations or presented any evidence at the public hearings contrary to or inconsistent with the Stipulations dated April 26, 1990, which were accepted and adopted by this Commission.

Having considered all of the evidence presented by all of the parties and intervenors, the Commission does now further find as follows:

1. The Company's 1990 forecasted actual capital structure of 61.55% equity and 38.45% debt is the appropriate capital structure for the Company.

2. The total embedded cost of the Company's long-term and short-term debt is 8.67%.

3. For purposes of implementing the Mississippi Rate Stabilization Plan, the rate base for 1990 is $876,075,000.

4. The ongoing average investment base of the Company shall be calculated in accordance with Exhibit A attached to the April 26, 1990 Stipulation filed in this cause.

5. For purposes of implementing the Mississippi Rate Stabilization Plan, the Company's income for 1990 is $110,828,000.

6. The rate of return range for use in the Mississippi Rate Stabilization Plan is set at 10.74% to 11.74% return on average investment base (Rate Base as defined in Exhibit A of the April 26, 1990 Stipulation filed in this cause).

7. South Central Bell shall reduce rates effective on the date of the implementation of the Mississippi Rate Stabilization Plan by an annual amount of $22,800,000. Such reductions shall be applied to various rates in accord with ordering paragraph 3 below.

E.

Except as hereafter stated, the Commission accepts and adopts as its own the Stipulation entered into by and between the Company, the Attorney General and Legal Services dated May 14, 1990. The Commission adopts and incorporates into this Order by reference all of the paragraphs of said Stipulation except paragraph 5 therein which sets out how the $22,800,000 rate reduction should be allocated. The Commission's allocation of said reductions is set forth in ordering paragraph 3 below.

Having considered all of the evidence presented by all of the parties and intervenors, the Commission does now further find as follows:

1.

The Mississippi Rate Stabilization Plan ("MRSP") formula will exclude from rate base (investment base) the company's investment in Long-Term CWIP.

2.

MRSP formula will exclude from operating income the Company's accruals of Interest During Construction (IDC).

3.

Each and every filing of a new innovative tariff proposal by the Company must be accompanied by evidence that the new service will, at a minimum, cover its Long Run Incremental Cost (LRIC) and provide a contribution to the overhead of the firm.

4.

The Company shall revise the plan to provide for a maximum of one revenue neutral adjustment during the three-year plan. The adjustment shall be as follows:

A. Decrease revenues $3.0M from Schedule 4 (in priority order shown)

B. Increase revenues $3.0M as follows:

<u>Directory Assistance</u>

Eliminate exemptions from Hotels, Motels and Mobile Phones.

<u>Late Payment</u>

Initiate 1.0% charge for payments not received by the billing date following date bill rendered.

C. <u>Regroup Exchanges</u>

5.

The following reports shall be furnished to the Commission:

A. Monthly - combined and intrastate income statements and statements of investment;

B. Monthly - MR-7 report (This report details the Company's access lines by customer class and type of central office in service in Mississippi. This

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report will be filed with the Commission on a proprietary basis inasmuch as it contains commercially sensitive information).

C. Quarterly - MPSC 1.

D. Budget and budget comparisons, on a proprietary basis, as required by the Commission.

6.

The duration of the Plan shall be three years. The PSC shall review the Plan after the fourth point of test (mid 1992), prior to the expiration of the Plan.

7.

The Company shall provide the public utilities staff with such information as the staff may require to investigate the performance of the Plan.

8.

The Company shall develop a cost study which, for a given 12-month period, assigns its Mississippi intrastate investment, revenues, expenses, taxes, and return to the services listed on Attachment A to the Stipulation or as may be mutually agreed upon by the parties. The initial version of the study will be completed to reflect actual results for the 12 months ended on December 31, 1991 and will be filed with the Commission and the Executive Director of the Public Utilities Staff under proprietary cover no later than June 30, 1992.

9.

In case of disputes between the Company and the staff regarding the operation of the Plan, such disputes will be resolved by the commission as set forth in the Task Force Report dated October 31, 1988.

F.

Historically, basic telephone exchange service provided by the Company has been priced below cost, and such service has been subsidized for many years by revenues generated from other services. The advent of competition in the telecommunications industry tends to drive rates for various services toward the cost of providing such services. Therefore, it would be inappropriate for any of the proposed $22,800,000 rate reduction to be applied so as to reduce rates for basic local exchange service, which is already priced below cost.

G.

During the hearings, testimony was presented regarding the unique problems relating to telephone services that are currently faced by DeSoto and Smith County residents. DeSoto County telephone users have a strong community of interest with both Memphis and Collierville, Tennessee. This community of interest includes strong economic ties between the Memphis area and the DeSoto County area. This Commission firmly believes that high toll rates operate as an economic barrier. Removing this economic barrier would effectively make the entire Memphis area a potential customer of DeSoto County, Mississippi. Additionally, it would allow DeSoto County residents increased access to their jobs and businesses in the Memphis area. South Central Bell's Mississippi operations, however, are bounded both by LATA boundaries and state boundaries. This Commission is concerned with the needs of the citizens of DeSoto county and yet recognizes that its jurisdiction over the Company does not allow a complete solution to this problem. To begin to address the problem, the Commission finds that South Central Bell should adjust its ACP rates to provide for reduced rates for calls to Memphis and Collierville, Tennessee. Further, this Commission shall enter into discussions with the Tennessee Public Service Commission, the Company and all other telephone companies providing service in that area, to seek to develop reciprocal calling arrangements from these Tennessee exchanges into Mississippi.

Representatives from Smith County presented arguments which supported the need to reevaluate arrangements for local calling in the county.

In the interest of being responsive to the expressed needs of Smith County residents, and as a vehicle for gathering data on possible future enhancements for the ACP, the Commission finds that modifications to the ACP for Smith County on a trial basis are desirable. The Company and the Staff should work together to determine such modifications and implementation schedule. Upon the accumulation of sufficient data the staff and the Company shall review the results of the Smith County modification to determine the feasibility and desirability of extending the modifications on a statewide basis.

H.

The evidence presented was sharply conflicting concerning the necessity for and frequency of hearings when changes in rates are to be made under the Plan following the Company's semi-annual reports to the Commission of certain required financial data. Certain Intervenors proposed that hearings be held every time there is any such change in rates under the Plan. The Commission finds that this proposal is wholly unworkable and would defeat the very efficiencies that the Plan is designed to accomplish. Accordingly, the Commission determines that no hearings will be required with respect to changes in rates under the Plan, so long as these changes are within the limits prescribed by Section 77-3-2(h).

I.

The evidence was also conflicting concerning the necessity for hearings before modification can be made to certain schedules found in the Plan. The Plan proposed by the Company provided that services subject to change under the Plan were specified in Schedules 4 and 5 to the Plan. That proposed Plan further provided for periodic reviews by the Commission and the Company respecting any modifications that should be made to those Schedules. In our view, this proposal is unacceptable because it places entirely too much authority in the hands of the Company and the Staff, without the safeguards of notice to persons who may be affected by such modifications to Schedules 4 and 5 and the opportunity for them to be heard. If any modifications to Schedules 4 or 5 are proposed by the Company or the Staff, an appropriate request to the Commission therefor must be made, and notice will be given to persons potentially affected thereby; and, if appropriate, hearings will be held to determine whether such modifications should be made. Accordingly, the Commission orders the preparation of a Rate Stabilization Plan which incorporates the conclusions in this regard.

III. FINDINGS CONCERNING REDUCTIONS

The $22.8 Million reduction in rates resulting from the April 26, 1990 Stipulation presents the Commission with a pleasant dilemma; i.e., how to equitably spread the rate reduction to most effectively benefit the ratepayers of Mississippi. Most all of the parties and intervenors urged that the reduction be applied to areas involving their respective interests. This is understandable for they are advocates. However, the Commission's charge is to protect the interests of all parties, intervenors, ratepayers, and the Company. There is no difficulty in determining the areas that deserve consideration for reduction. They are numerous. The funds, however, are finite. With the foregoing in mind, we undertake the task at hand.

Blocking of 900/976 Numbers

The Mississippi Public Service Commission has previously ordered that South Central Bell block 900 and 976 numbers free of charge for residential customers that request blocking. Since that time it has been brought to the Commission's attention, through numerous complaints, that other classes of ratepayers such as churches, schools and businesses, also desire to have 900 and 976 numbers blocked. Commissioner Watson initiated an inquiry into this matter at the hearing and South Central Bell agreed to furnish the Commission information concerning the revenue loss and cost to South Central Bell to provide blocking of these numbers free to all classes of ratepayers. The Commission finds that it is in the public interest to eliminate the existing $3.75 monthly charge to the above classes of customers for blocking of such calls. Therefore, a portion of the $22.8 Million rate reduction shall be applied to this service as set out in Ordering paragraph 3 below.

Extended Area Calling Plan (ACP)

Four public witnesses urged the Commission to extend local calling in Smith and DeSoto Counties. Additionally, the Commission has received numerous inquiries from residents in these two counties and other counties concerning these issues. South Central Bell, through its witness James H. Anderson, also requested the Commission to extend the Area Calling Plan from 22 miles to 30 miles. This would allow residents of all Mississippi counties to call their county seats on a local measured basis. The extension of the Area Calling Plan will also go a long way in helping alleviate the Extended Area Service (EAS) problems facing many rural customers. As pointed out by Mr. Anderson, intraLATA short haul toll rates are at a level that substantially restricts calling to nearby exchanges. This limits economic expansion from larger cities into the rural areas which are served by a nearby exchange. Reducing these short haul toll rates should serve to open up opportunities for economic development. In large metropolitan areas today, customers can call locations that are 30 miles away on a local basis. In many of the smaller exchanges in the state, it is necessary to call on a toll basis at these and even shorter distances. Expansion of the Area Calling Plan to 30 miles makes expanded calling scopes available to customers in smaller exchanges on a basis similar to customers in larger exchanges. We are convinced that high toll rates do create an economic barrier to the citizens of our state and that by reducing rates in these areas we will help enhance the economic development of the state. Therefore, a portion of the $22.8 Million rate reduction shall be applied to extend the call area from 22 miles to 30 miles and to include county seat calling as set out in Ordering paragraph 3 below. This shall be accomplished no later than July 31, 1990 in those exchanges where the Area Calling Plan is currently in effect.

Bi-Jurisdictional WATS

The Commission finds that during the pendency of this case, it received correspondence from several interexchange carriers requesting that the Commission review its policy on the requirement for jurisdictionally separate WATS access lines. That policy was set forth in Docket No. U-4977, in which the Commission ordered that interstate and intrastate WATS service be provided over jurisdictionally separate WATS access lines.

On April 20, 1990, South Central Bell filed a tariff revision (to be effective July 2, 1990) which provided for the introduction of a bi-jurisdictional WATS service. The estimated annual revenue impact on South Central Bell of the filing is a reduction in revenues of $770,000. The Commission finds that significant changes have occurred in the market to the point where jurisdictional restrictions are no longer appropriate and that customers will benefit from this filing through the ability to construct more efficient networks. Therefore, South Central Bell's proposed bi-jurisdictional WATS tariff should be implemented effective July 2, 1990 and a portion of the $22.8 Million rate reduction shall be applied to this service as set out in Ordering paragraph 3 below.

Rural Zone Mileage Charges

Rural zone mileage charges are designed to recoup the extra expense to serve customers located outside the base rate area. The same charges are also responsible for some customers not being able to afford single line service. As stated by Mr. Anderson of South Central Bell, the zone charge is simply a fixed charge that is added to the basic rate for customers who live in a rural area. In keeping with the universal service goal of this Commission, a reduction in zone charges would make telephone service more affordable to customers desiring single line telephone service. Also, by combining zone charge reductions with the Area Calling Plan reductions, customers in rural areas can see a substantial reduction in their phone bill.

Therefore, we find that we can accomplish our stated goals by allocating a portion of the $22.8 Million rate reduction to all rural zone mileage charges as set out in Ordering paragraph 3 below.

<u>IntraLATA Toll Reduction</u>

IntraLATA toll charges are priced above cost and consequently provide a contribution to local service. Historically, intrastate rates have been priced higher than interstate rates. However, with increasing competition from the resellers and interexchange carriers, intraLATA toll rates must be reduced in order for South Central Bell to retain any of that business and remain in a competitive posture for the future.

South Central Bell, the Attorney General and Mississippi Legal Services Coalition/Southeast Mississippi Legal Services entered into a Stipulation on May 14, 1990. In paragraph 5 of that Stipulation the parties to the Stipulation suggested allocation of the reduction to certain areas; one of them being a reduction in intraLATA toll in the amount of $10 Million.

The updated testimony of AT&T's witness, Neil E. Brown, suggested a reduction to be allocated between intraLATA toll and local services in the amount of $12.6 Million.

South Central Bell urged that any reductions to intrastate access charges must be accompanied by reductions to South Central Bell's intraLATA toll rates. The Company testified that such concomitant reductions are necessary in order to avoid increasing the disparity between South Central Bell intraLATA toll rates and rates for interLATA calling.

Mr. Anderson of South Central Bell testified on direct and cross-examination that intrastate toll was priced above cost and that it was South Central Bell's intention to move it toward cost.

The Supreme Court of Mississippi in Pittman v. MPSC, 538 So.2d 387,400 (Miss. 1989) said:

> Under the statute utility rates must be just and reasonable. The statutory requirement of just and reasonable rates is satisfied when the rates are cost based.

Cost based rates are a goal of this Commission, however, it is the experience of this Commission that the goal of cost based rates often conflicts with other goals of this Commission, e.g., universal service. Additionally, moving to cost based rates too quickly can result in rate shock to the local subscriber. The Commission views cost based rates as an ideal, a yellow brick road that we tread deliberately and diligently with full knowledge that countervailing goals may prevent our arriving at the goal of totally cost based rates. Therefore, a portion of the $22.8 Million rate reduction shall be applied to intraLATA toll as set out in Ordering paragraph 3 below.

Lifeline Program

Legal Services witness Roger Colton advocated the institution of a lifeline program in Mississippi and urged that a portion of the $22,800,000 rate reduction be used to implement such program. This Commission is committed to the ideal of universal telephone service and we are very much aware of the special needs of very low income ratepayers. We have directed the Company to file two (2) separate tariffs which significantly address the needs of low income customers. The first of these was Link-Up Mississippi, which was approved in May of 1988. This plan has been successful in promoting subscribership among low income households without triggering the need for increases in basic local exchange rates. The second tariff filed by the Company to address the needs of low income customers was the Area Calling Plan (ACP) as ordered by the Commission in Docket U-5214. The ACP was designed to "provide a way for ratepayers to control their local telephone rates, help low income persons have access to the network, and address extended area calling concerns".

The Commission finds that a portion of the $22.8 Million should be allocated to address further the needs of our low income telephone subscribers. Testimony supports both the need to further refine the ACP and implement a Lifeline Service offering which would be available to all persons meeting the eligibility requirements to be established for the program. Lifeline is a federal assistance program whereby part or all of the federal subscriber line charges are waived to the extent that intrastate rates for these customers are likewise reduced. Therefore, for those customers who meet the eligibility requirements for the lifeline service offering, the Commission finds that the ACP monthly rate should be reduced by $1.00. The Commission with input from the Company and Legal Services will develop a Lifeline plan consistent with this order for the purpose of submission to the Federal Communications Commission to secure plan certification and thereafter ACP monthly rates shall be reduced as set forth above.

Therefore, a portion of the $22.8 Million rate reduction shall be applied to these services as set out in Ordering paragraph 3 below.

<u>Intrastate Access Charges</u>

Prior to divestiture AT&T and the Bell Operating Companies were siblings as issue of "Ma Bell" and shared many common interests. Since divestiture their common interests have diminished and it is not unusual for the former siblings to agree to disagree. One issue that AT&T and South Central

Bell do agree on is that intrastate access charges should be moved toward parity with interstate access charges. South Central Bell's witness Jim Anderson, AT&T's witnesses Garry L. Sharp and Neil E. Brown, and MCI's witness Don Wood, all advocated a reduction in intrastate access charges. These witnesses agreed that the goal is for intrastate access charges to "mirror" interstate access charges, however, the intervenors wanted that goal accomplished instanter. The Company urged that it would be inappropriate to reduce intrastate access charges by the amount urged by the intervenors so as to achieve such parity at this time. South Central Bell, the Attorney General and Legal Services, in their aforementioned stipulation, set the intrastate access reduction at $4 Million. The Commission accepts the concept that intrastate access charges should move toward parity with interstate access charges, however, as we stated previously, the funds available for this are finite. The Commission agrees with the position taken by the Company, the Attorney General and Legal Services in their stipulation. Therefore, a portion of the $22.8 Million rate reduction shall to be applied to the reduction of intrastate access charges as set forth in Ordering paragraph 3 below.

IT IS, THEREFORE, ORDERED by the Commission that:

1. It is in the best interests of Mississippi ratepayers, the public, this Commission, and the Company for this Commission to adopt and implement a Rate Stabilization Plan.

2. The Commission hereby adopts and orders the implementation of the Mississippi Rate Stabilization Plan in the form and content of the November 15, 1989 Plan filed by the Company, but as modified by our Findings herein. In order to implement this Commission order with respect to the Mississippi Rate Stabilization Plan, the Company is ordered to make the modifications required herein and is ordered to prepare and file the Plan as a tariff which will become part

of its General Subscriber Services Tariff, with an effective date of July 1, 1990.

3. The Company shall immediately file, to become effective with billing periods on and after July 1, 1990, except as otherwise set forth herein, tariffs, rates, and charges, to reduce its rates by an annual amount of $22,800,000 to be applied as follows:

Service Categories	$ Reduction Amount
Lifeline	1.4M
ACP Expand current ACP calling areas to 30 miles and allow all ACP customers to call County seat	3.5M
Access Reduce intrastate originating and terminating CCLC toward the interstate level	4.0M
Toll MTS Rates	10.0M
Rural Zone Mileage Charges	2.5M
DeSoto County	.55M
Smith County	.07M
Bi-Jurisdictional WATS	.77M
Blocking Free blocking of calls to 976/900 numbers from businesses, churches, and schools	.017M

4. This Order constitutes the final Order of this Commission in this cause, and supersedes and supplants any interim or other prior Orders herein to the extent that any such Order is inconsistent with any finding or conclusion herein, or any other provision hereof.

5. Each specific finding of fact and conclusion of law heretofore made in this Order is accepted and adopted as an ultimate finding of fact and conclusion of law by the Commission.

ORDERED by the Commission this the 18th day of June, 1990.

Chairman Nielsen Cochran voted Aye; Vice Chairman Bo Robinson voted Aye; Commissioner George T. Watson voted Aye.

MISSISSIPPI PUBLIC SERVICE COMMISSION

Nielsen Cochran

Nielsen Cochran, Chairman

Bo Robinson

Bo Robinson, Vice Chairman

George T. Watson

George T. Watson, Commissioner

PUBLIC SERVICE COMMISSION MISSISSIPPI

ATTEST: A TRUE COPY

Brian U. Ray

Brian U. Ray, Executive Secretary

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FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

IN REPLY REFER TO:

June 22, 1990

Mr. Paul Glist
Cole, Raywid & Braverman
Attorneys at Law
Second Floor
1919 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

Dear Mr. Glist:

This is in response to your letter of December 20, 1989 which requested a response that would allow companies paying pole attachment rentals to determine pole attachment carrying costs using Part 32 accounts reported in the Annual Report Form M.

You requested that we review your understanding of where the contents of certain Part 31 accounts are reported on the Federal Communications Commission Annual Report Form M. Annual Report Form M was revised on April 27, 1989 (DA 89-503, released May 12, 1989) to reflect the new accounting system in Part 32 (47 C.F.R. Part 32) that replaced the accounting system in Part 31 effective January 1, 1988.

Your letter also requested information on whether or not the contents of several apparently comparable Part 32 expense accounts now include more expenses than they previously included under Part 31. The Part 32 accounts for which you requested more specific information are discussed in the following paragraphs.

<u>Account 6411, Poles expense</u>.

Account 6411 under Part 32 is comparable to Part 31 Account 602.1, Repair of pole lines, if the benefit component and rent component of the expense matrix are eliminated. Under Part 32, Account 6411 includes benefits previously included in Part 31 Account 672, Relief and pensions, social security and other payroll taxes previously recorded in Part 31 Account 307, Other operating taxes, and rents previously included in Part 31 Account 671, Operating rents. Account 602.1 generally matches with the sum of columns (ac) and (af) reported for Account 6411 on Annual Report Form M Schedule I-1.

In the formula prescribed in CC Docket 86-212, the benefit amounts reported in Annual Report Form M Schedule I-1 column (ad) would have been included as part of the numerator for the calculation of the administrative expense ratio and the social security and other payroll taxes also included in column (ad) would have been included in the numerator for the calculation of the normalized taxes ratio. The rents reported in column (ae) would have been included as part of the numerator for the calculation of the administrative expense ratio.

Account 6124, General purpose computers expense.
Account 6724, Information management.

Your letter correctly notes that Part 31 did not provide separate accounts for computer expenses and that Part 32 includes expenses recorded in Account 6724 in the category of general and administrative expenses. Your letter is not correct in assuming that if one wishes to isolate the computing expenses a telephone utility incurs in general corporate overhead, one would look to Account 6724 only. Account 6124, as presently described in Part 32 does include some expenses that under Part 31 were included in general and administrative expenses. Expenses recorded in Account 6124 relate to assets recorded in Account 2124, General purpose computers, which by definition relate to general administrative information processing activities. (See 47 C.F.R. Sections 32.2124 and 32.5999 (b)). While we have conducted no formal analysis of this account it should not contain expenses associated with computers and related devices and software that perform switching, network signalling, network operations or plant specific equipment functions for which accounts have been provided (See 47 C.F.R. 32.2124 (d)).

Account 6535, Engineering expense.

Under Part 31, expenses of general engineering departments were recorded initially in Account 705, Engineering expense and then cleared to other accounts on the basis of services rendered, as determined by the time devoted to particular jobs. The pay and expenses of supervisory personnel and other personnel engaged in clerical, reproduction and record work were also cleared to other accounts. Under Part 32, Account 6535 includes general engineering expense that is not directly chargeable to specific undertakings or projects. Under Part 32, engineering expenses directly related to poles would be recorded in Account 6411, Poles expense. As a result, a portion of Account 6535 would include the indirect expenses of supervisory personnel that under Part 31 would have been cleared to Part 31 Account 602.1, Repair of pole lines.

Account 6611, Product management.
Account 6612, Sales.
Account 6613, Product advertising.
Account 6621, Call completion services.
Account 6622, Number services.
Account 6623, Customer services.

Under Part 31, the expenses recorded in Accounts 640 through 650, considered in the aggregate, generally track to Accounts 6611 through 6623 under Part 32, with the exception of connecting company relations expenses, which were recorded in Part 31 Account 644 that are now recorded in Account 6722 under Part 32.

Account 6722, External relations.

Some of the expenses recorded in this account were not included in Accounts 661 through 677 under Part 31. These expenses include nonproduct related corporate image advertising and some expenses that were recorded in Account 644, Connecting company relations. The nonproduct related corporate image advertising portion of the expenses recorded in Account 6722 can be identified on Annual Report Form M Schedule I-6. There is no separate identification of the connecting company portion of expenses recorded in Account 6722 in the Annual Report Form M.

Account 6726, Procurement.

Under Part 31, the expenses now recorded in Account 6726 were originally recorded in Account 704, Supply expense and then cleared to appropriate accounts including Accounts 661 through 677.

We have reviewed the attachment to your letter, which we have revised in light of the previous discussion and enclosed as an attachment to this letter.

If you have additional questions you may contact John T. Curry or Thaddeus Machcinski of my staff on (202) 634-1861.

Sincerely,

Kenneth P. Moran

Kenneth P. Moran
Chief, Accounting and Audits Division

Attachment

ATTACHMENT

Conversion Schedule

Part 31 Account	Part 32 Account Title	Form M Location
100.1	Telephone Plant in Service	2001/Sch. B-1
171	Accumulated Depreciation	3100/Sch. B-1
176.1	Net Current Def. Operating Inc. Taxes	4100/Sch. B-11
	Net Noncurrent Def. Oper. Inc. Taxes	4340/Sch. B-11
241	Pole Lines Investment	2411/Sch. B-1
608	Pole Lines Accumulated Depreciation	2411/Sch. B-5b
304	Operating Investment Tax Credits-net	7210/Sch. I-1
306	Operating Federal Income Taxes	7220/Sch. I-1
307	Operating State and Local Income Taxes	7230/Sch. I-1 1/
	Operating Other Taxes	7240/Sch. I-1 1/
308.1		
308.2		
309	Provision for Defer. Operating Inc. Tax-net	7250
602.1	Pole Expense	6411/Sch. I-1 2/
661	Executive and Planning	6710/Sch. I-1
662		
663	Accounting and Finance	6721/Sch. I-1
664	External Relations	6722/Sch. I-1 3/
	Legal	6725/Sch. I-1

1/ Does not include social security and other payroll taxes.

2/ Column (ad) will include relief and pensions formally recorded in Account 672 and social security and other payroll taxes included in Account 307. Column (ae) will include rents included in Account 671.

3/ Includes institutional advertising included in Account 642, and connecting company relations included in Account 644. The amount of advertising in 6722 is reported on Form M Schedule I-6.

Part 31 Account	Part 32 Account Title	Form M Location
665	Other General and Administrative	6728
668	Poles Expense (other matrix)	6411/Sch.I-1 col.(af)
669	Poles Expense (other matrix)	6411/Sch.I-1 col.(af)
670	Earth Station Expenses	6231/Sch.I-1 col.
671	Poles Expense (rent matrix)	6411/Sch.I-1 col.(ae)
672	Poles Expense (benefits matrix)	6411/Sch.I-1 col.(ad)
673	Telephone Franchise Requirements	Various Accounts
674	General Services and Licenses	Various Accounts
675	Other Expenses	Various Accounts
	General Purpose Computers	6124/Sch. I-1 4/
	Engineering Expense	6535/Sch. I-1 4/
	Human Resources	6723/Sch. I-1
	Information Management	6724/Sch. I-1 4/
	Procurement	6726/Sch. I-1 5/
	Research and Development	6727/Sch. I-1
	Other General and Administrative	6728/Sch. I-1 6/

4/ A portion of these expenses were included in total administrative and general expenses under Part 31.

5/ A portion of the expenses recorded in this account were recorded in Account 704. Supply expense under Part 31 and then cleared to appropriate Accounts 661 through 677.

6/ A portion of these expenses were included in Account 626 Rest and lunchrooms under Part 31.